Oriental Kopi Holdings (KOPI MK)

Grounded Valuations, Brewing Upside

	BUY (Upgraded)
Share Price	RM1.06
Target Price	RM1.40
Upside	+32.1%

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Highlights

- On the cusp of regional expansion, unlocking FMCG export potential.
- Malaysia's tourism exposure to conflict-affected regions remains limited, implying manageable impact.
- Upgrade to BUY as value has emerged following overplayed fears. Unchanged target price of RM1.40.

Analysis

- **Prudent overseas push.** Oriental Kopi Holdings (Oriental Kopi) is finalising agreements with regional partners to support expansion into two markets. While management has not disclosed the specific countries, it emphasised a cautious, quality-first approach, prioritising brand consistency and local operational understanding. Neighbouring countries such as Indonesia, Thailand and the Philippines were previously mentioned.
- **Precision in expansion, proven playbook.** Initial rollout will be deliberately paced, with close to two outlets in the first two years before scaling to around 10 outlets over the medium term. We view this measured approach favourably, given the execution risks inherent in overseas F&B expansion. Encouragingly, its Singapore operations turned profitable from the first full quarter of its maiden outlet, underscoring management's disciplined approach and execution. This lends confidence that a multi-country rollout remains manageable, with limited initial losses, if any. Notably, FMCG sales are excluded from the JV structure, allowing Oriental Kopi to retain full profitability from this income stream.
- **Clear headroom for FMCG trajectory.** Prior to its privatisation, OldTown's FMCG sales peaked at RM233m in 2017, with over 60% generated from export markets. Given Oriental Kopi's broader FMCG portfolio – spanning beyond white coffee to include pineapple tarts, spreads and instant noodles – we see scope for it to surpass OldTown over time. This underscores a significant growth runway, with FY25 FMCG sales currently at RM92m, which is entirely domestic sales. Growth is likely to be further catalysed by overseas expansion and the establishment of a physical presence abroad. Domestically, the group continues to widen its distribution footprint, expanding into additional retail channels such as Mr. DIY and Bila-Bila Mart, alongside its existing presence in 99 Speedmart, Lotus's and Jaya Grocer.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	277.3	450.9	626.5	759.8	863.5
EBITDA	80.2	117.1	158.3	199.5	217.8
Operating profit	60.9	87.5	118.6	144.6	159.5
Net profit (rep./act.)	43.1	60.8	86.3	106.0	116.4
Net profit (adj.)	43.1	62.1	86.3	106.0	116.4
EPS	2.2	3.1	4.3	5.3	5.8
PE	58.0	40.3	29.0	23.6	21.5
P/B	46.7	8.5	7.1	5.9	5.0
EV/EBITDA	31.0	20.4	14.2	10.7	9.3
Dividend yield	0.8	0.8	1.1	1.4	1.5
Net margin	15.6	13.8	13.8	14.0	13.5
Net debt/(cash) to equity	-1.1	-0.9	-0.9	-1.0	-1.1
Interest cover	17.6	19.8	49.3	65.7	45.1
ROE	79.4	25.5	23.8	25.2	23.4
Consensus net profit	n.a	n.a	83.1	97.8	109.2
UOBKH/Consensus (x)	n.a	n.a	1.04	1.08	1.07

Source: Oriental Kopi, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	KOPI MK
Shares issued (m)	2,000.0
Market cap (RMm)	2,140.0
Market cap (US$m)	542.2
3-mth avg daily t'over (US$m)	1.4

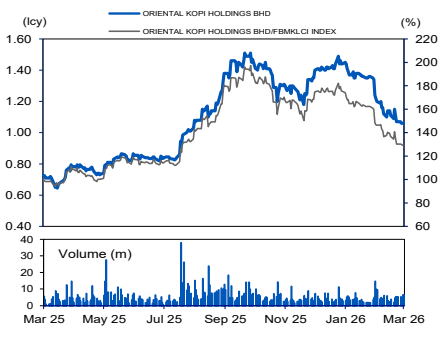
Price Performance (%)

52-week high/low				RM1.51/RM0.74
1mth	3mth	6mth	1yr	YTD
-21.3	-20.1	-10.1	48.6	-23.6

Major Shareholders	%
Dato' Chan Jian Chern	42.2

Balance Sheet Metrics	%
FY26 NAV/Share (RM)	0.19
FY26 Net Debt/Share (RM)	0.17

Price Chart



Source: Bloomberg

Company Description

Malaysia's largest homegrown public-listed cafe chain that offers local cuisine and Halal-certified packaged food products.

- **Prime locations to ride VMY26 tailwinds.** Five outlets are situated within airports, while others are located in high-traffic, tourist-centric malls such as TRX, Pavilion KL and Suria KLCC. A new outlet in Genting is also slated to open this year. In total, at least 25% of its outlets are exposed to tourist-heavy locations, positioning the group to capture the targeted 11.3% yoy increase in tourist arrivals to 47m under VMY26.
- **Limited exposure to conflict-affected regions.** On the Middle East conflict and potential tourism disruption, we note that only about 6% of Malaysia's inbound tourists originate from more affected regions such as Europe and the Middle East. The lion's share of arrivals is from Asia Pacific, Oceania and Russia, which collectively accounted for about 94% of tourists in 2024. Thus, while the conflict introduces uncertainty, we expect overall tourist arrivals – and by extension Oriental Kopi's exposure – to remain largely resilient.
- **Back to the drawing board for its central kitchen.** Management is still assessing potential sites for its central kitchen. The earlier shortlisted location was deemed unsuitable because a gas pipeline ran through the plot, prompting the company to mitigate any future risks akin to the Putra Heights gas explosion incident. In light of ongoing site constraints, particularly within Puchong and in close proximity to its HQ, the group is also exploring alternative options, including central kitchen partnerships or potential M&A to accelerate the process.
- **Stronger quarter ahead.** We expect the upcoming quarter to deliver sequentially stronger earnings. This is driven by: a) the absence of foreign worker permit costs (~RM1m) incurred in 1QFY26; b) a full-quarter contribution from two outlets opened in Dec 25, which previously incurred start-up costs with limited revenue recognition; and c) contributions from two additional outlets opened in Jan 26. These factors should more than offset the seasonal impact of Ramadhan in 2QFY26. Overall, 1HFY26 earnings are expected to track within our full-year forecasts, with a stronger 2HFY26 outlook supported by a pickup in tourism.

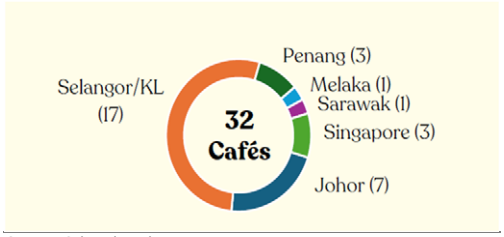
Valuation/Recommendation

- **Upgrade to BUY from HOLD with an unchanged target price of RM1.40.** Recent valuation weakness followed the conflict-driven risk-off sentiment, which heightened concerns over tourism as well. However, these fears appear overdone, as the bulk of inbound tourists originate from countries with unaffected travel flows to Malaysia.
- Oriental Kopi offers a compelling earnings growth, with a three-year earnings CAGR of 23.3%, underpinned by its expansion from a low base. Potential regional expansion, successful replication of its domestic model, and growing FMCG export sales could serve as further catalysts for both investor interest and valuation upside. Our target price is based on 25.9x 2027F PE, in line with the market cap-weighted average of its peers.

Earnings Revision/Risk

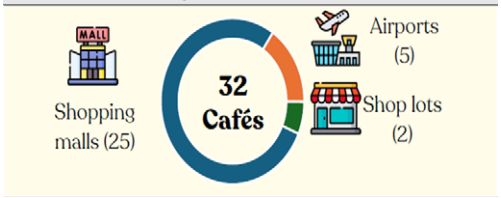
- **No changes to earnings.** Key risk is execution and identification of new outlets and containing costs.

Café Formats By Location As At End-FY25



Source: Oriental Kopi

Café Network By Format As At End-FY25



Source: Oriental Kopi

Composition Of Inbound Tourists to Malaysia By Nationality (2024)

Singapore	50%
Indonesia	11%
China	10%
Thailand	6%
Brunei	5%
India	4%
Philippines	2%
South Korea	1%
Australia	1%
Chinese Taipei	1%
Others - Asia incl. Russia	4%
Others - Europe	3%
Others	3%

Source: Oriental Kopi

Environmental, Social, Governance (ESG)

Environmental

- Sustainability. Oriental Kopi demonstrates a commitment to circular economy principles by incorporating biodegradable materials and reducing the reliance on single-use plastics in its packaged foods. These efforts align with sustainable resource management goals.

Social

- Inclusivity. By pursuing halal certification for its cafes and packaged foods, Oriental Kopi supports cultural inclusivity and addresses the needs of diverse religious and cultural groups, ensuring broader community engagement.

Governance

- Board independence. The board includes a majority of Independent Non-Executive Directors (INED), as recommended by the Malaysian Code on Corporate Governance (MCCG). At least 50% of the board comprises INEDs, ensuring independence in decision-making and governance.
- Board diversity. The board is composed of individuals with diverse skills, knowledge, and experiences. This diversity extends to age, gender, and cultural backgrounds. Women represent 30% of the board, meeting MCCG recommendations for gender inclusivity.

Source: Oriental Kopi, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	450.9	626.5	759.8	863.5
EBITDA	117.1	158.3	199.5	217.8
Deprec. & amort.	29.5	39.7	55.0	58.3
EBIT	87.5	118.6	144.6	159.5
Total other non-operating income	0.2	1.6	2.4	2.9
Associate contributions	0.0	1.0	2.0	3.0
Net interest income/(expense)	-4.3	-2.4	-2.2	-3.5
Pre-tax profit	83.4	117.8	144.8	158.9
Tax	-22.7	-31.5	-38.7	-42.5
Minorities	0.0	0.0	0.0	0.0
Net profit	60.8	86.3	106.0	116.4
Net profit (adj.)	62.1	86.3	106.0	116.4

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	135.5	191.4	178.3	161.9
Other LT assets	2.4	2.4	2.4	2.4
Cash/ST investment	251.8	316.0	423.8	538.8
Other current assets	37.1	39.7	48.2	54.7
Total assets	426.7	549.4	652.6	757.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	61.0	90.2	106.0	119.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	72.3	107.2	122.7	135.8
Shareholders' equity	293.5	352.0	423.9	502.7
Total liabilities & equity	426.7	549.4	652.6	757.8

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	81.8	146.2	157.0	167.0
Pre-tax profit	84.8	117.8	144.8	158.9
Tax	-23.8	-31.5	-38.7	-42.5
Deprec. & amort.	26.3	39.7	55.0	58.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	-5.6	26.2	3.8	3.7
Other operating cashflows	0.2	-6.1	-7.8	-11.4
Investing	-29.1	-48.8	-10.1	-6.5
Capex (growth)	-31.9	-54.9	-17.9	-17.9
Proceeds from sale of assets	0.0	1.0	2.0	3.0
Others	3.5	6.1	7.8	11.4
Financing	137.5	-33.1	-39.1	-45.5
Dividend payments	-21.0	-27.8	-34.2	-37.5
Issue of shares	179.2	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	-20.7	-5.4	-4.9	-8.0
Net cash inflow (outflow)	190.2	64.2	107.8	115.0
Beginning cash & cash equivalent	59.4	251.8	316.0	423.8
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	251.8	316.0	423.8	538.8

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	21.9	21.4	22.3	21.2
Pre-tax margin	18.8	18.8	19.1	18.4
Net margin	13.8	13.8	14.0	13.5
ROA	14.5	15.7	16.2	15.4
ROE	25.5	23.8	25.2	23.4
Growth				
Turnover	62.6	38.9	21.3	13.6
EBITDA	46.1	35.2	26.0	9.2
Pre-tax profit	47.4	39.0	22.9	9.7
Net profit	40.9	42.0	22.9	9.7
Net profit (adj.)	43.9	39.0	22.9	9.7
EPS	43.9	39.0	22.9	9.7
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	-0.9	-0.9	-1.0	-1.1
Interest cover	19.8	49.3	65.7	45.1

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